

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 TRSY-02 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 86

LIMITED OFFICIAL USE SECTION 1 OF 2 WELLINGTON 2450

E.O. 11652: N/A

TAGS: ECON, NZ

SUBJ: BILATERAL ECONOMIC CONSULTATIONS

REF: A. STATE 172318

B. WELLINGTON 2216

C. STATE 192156

D. USDEL GENEVA 5162

1. EMBASSY COMMENTS ON SELECTED AGENDA

ITEMS CONTAINED REFTEL A FOLLOW:

- (I) THE NEW ZEALAND ECONOMY AND MAJOR FOREIGN ECONOMIC POLICY
ISSUES: IN 1972, NOTWITHSTANDING THE FACT THAT THE DE-
PRESSED NZ ECONOMY WAS SHOWING SIGNS OF REVIVAL, THE LABOUR

GOVERNMENT CAME TO POWER ON A PLATFORM WHICH CONTAINED MANY
PROPOSALS FOR GETTING THE ECONOMY "ROLLING AGAIN." GUARAN-
TEED FULL EMPLOYMENT WAS A SACRED COMMITMENT. THE ECONOMY
DID CONTINUE ITS UPWARD TREND. PRICES FOR NZ'S MAIN EXPORTS,
MEAT, WOOL AND DAIRY PRODUCTS ROSE TO NEW ALL TIME HIGHS.
NZ MANUFACTURED AND FORESTRY PRODUCTS ALSO ENJOYED A
FAVORABLE EXPORT CLIMATE. BY JUNE 1973, NZ'S FOREIGN

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EXCHANGE HOLDINGS ROSE TO \$NZ1093 MILLION, HIGHEST PER

CAPITA IN THE WORLD.

WHILE NZ'S ECONOMY WAS THUS EXPANDING WITH THE RENEWED BUSINESS CONFIDENCE FROM A VERY FAVORABLE BALANCE OF PAYMENTS, THE LABOUR GOVERNMENT INSTITUTED POLICIES FOR ECONOMIC STIMULATION IT FELT COMMITTED TO BY CAMPAIGN PROMISES. THE ECONOMY BECAME OVER-HEATED. NOT ONLY WAS FULL EMPLOYMENT ACHIEVED, BUT WAGES INCREASED SIGNIFICANTLY. THE PRESSURE ON PRICES FROM INCREASED LABOR COSTS AND RISING IMPORT COSTS HAD THE INEVITABLE EFFECT. THE INFLATION RATE INCREASED RAPIDLY. THE ONSLAUGHT OF THE OIL CRISIS ADDED TO INFLATIONARY PRESSURES. TO EASE THE DOMESTIC INFLATIONARY PRESSURES DUE TO INCREASED DEMAND, A LARGE INCREASE IN IMPORTS WAS AUTHORIZED. ALSO IMPORT PRICES ROSE, 63 PERCENT FROM MARCH 1973 TO MARCH 1975. THE FOREIGN EXCHANGE RESERVES FELL AT A PRECIPITOUS RATE, NEARLY \$NZ500 MILLION IN THE YEAR ENDING JUNE 1974.

GREATLY INCREASED OIL IMPORT COSTS EXACERBATED THE SITUATION. THE GOVERNMENT HAS BEEN BORROWING ABROAD TO CONSERVE FOREIGN EXCHANGE HOLDINGS AND TO BUY TIME WHILE WAITING FOR THE HOPED FOR EARLY UPSWING IN THE WORLD ECONOMY IN SPITE OF PREDICTIONS, THIS HAS YET TO MATERIALIZE. FOR THE YEAR ENDING JUNE 1975 TOTAL NEW GOVERNMENT BORROWING REACHED \$NZ691 MILLION. IN JULY THE EQUIVALENT OF NEARLY \$NZ92 MILLION WAS BORROWED AND IN AUGUST ABOUT \$NZ150 MILLION MORE. PRIVATE (COMPANY) FOREIGN BORROWING HAS BEEN ENCOURAGED AS WELL. APRIL INFLOW FOR THE JUNE 1975 YEAR WAS OVER \$378 MILLION. THE CURRENT ACCOUNT BALANCE FOR THE JUNE 1975 YEAR REACHED A MINUS \$NZ1067 MILLION.

THE AUGUST 15 PERCENT DEVALUATION HAD A TWO-PRONGED OBJECTIVE,

TO REDUCE THE ADVERSE BALANCE OF PAYMENTS AND TO INCREASE THE NZ DOLLAR EARNINGS ESPECIALLY OF THE NZ MEAT AND WOOL GROWERS. THEY HAVE BEEN HIT HARD BY INCREASED PRODUCTION COSTS AND GREATLY REDUCED EXPORT PRICES. A "GREAT DEBATE" HAS CONTINUED BETWEEN THE GOVERNMENT AND THE FARMERS GROWING OUT OF THEIR DETERIORATED ECONOMIC PLIGHT. THE MINISTER

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(III) MTN AND GATT:

GNZ'S ATTITUDE AND NEGOTIATING STANCE IN THE MTN AND GATT AND WHAT IT WILL BE PREPARED TO GIVE WILL DEPEND CONSIDERABLY ON HOW IT SEES ITS TRADING POSITION BEING AFFECTED BY THE CURRENT WORLD ECONOMIC SITUATION RELATIVE TO OTHER TRADING COUNTRIES. IT WILL UNDOUBTEDLY TRY IN THE PRESENT CIRCUMSTANCES TO GAIN AS MUCH AS IT CAN FROM ANY TRADE VANTAGE POINT.

(IV) RELATIONS WITH DEVELOPING NATIONS:

(A) ENERGY AND COMMODITY PRODUCER-CONSUMER DIALOGUES; GNZ'S POSITION BASICALLY PARALLELS THAT OF THE U.S., BUT IT SEEMS RESOLVED TO PLAY A MORE PASSIVE ROLE. THIS APPEARS TO BE DUE TO TWO FACTORS; (1) ITS INTEREST IN DEVELOPING MORE EXPORT TRADE WITH THE MIDDLE EAST OIL-PRODUCING COUNTRIES AND THEREFORE ITS WISH NOT TO BE AT THE FOREFRONT OF ANY PRODUCER-CONSUMER CONFRONTATION, AND (2) ITS APPARENTLY NOT HAVING YET DEVELOPED A CLEAR CUT IDEA OF WHAT IT EXPECTS TO GAIN FROM ITS INVOLVEMENT IN THE IEA AND OTHER CONSUMER GROUPINGS AND THE EXTENT OF THE MEASURES IT IS PREPARED - OR IS ABLE - TO TAKE TO COMPLY WITH DECISIONS.

(V) SOUTHEAST ASIA - PACIFIC ECONOMIC COOPERATION:

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IN HIS STATEMENT IN MAY ANNOUNCING THE 1975-76 BUDGET, THE MINISTER OF FINANCE STATED THAT, THOUGH THE EFFECTS OF THE PRESENT INTERNATIONAL SITUATION ON THE NZ ECONOMY IS SERIOUS, THE GOVERNMENT REAFFIRMS ITS COMMITMENT TO THE EARLY ATTAINMENT OF 0.7 PER CENT OF GNP OFFICIAL DEVELOPMENT ASSISTANCE.

THE \$NZ57 MILLION BUDGETED FOR THE CURRENT YEAR IS OVER 40 PER CENT GREATER THAN LAST YEAR. BILATERAL AID MAKES UP THE BULK OF GNZ ASSISTANCE (\$39.1 MILLION BUDGETED OF WHICH OVER \$NZ17.3 MILLION IS TO GO TO THE SOUTH PACIFIC AND \$NZ14.8 MILLION IS DESTINED FOR SOUTH AND SOUTHEAST ASIA). THE LARGEST SHARE OF MULTILATERAL AID MONEY GOES TO THE ASIAN DEVELOPMENT FUND-\$NZ3.1 MILLION-BUT UNDP IS BUDGETED \$NZ2 MILLION AND \$NZ1.25 MILLION IS FOR RECONSTRUCTION AID TO INDO-CHINA.

BILATERAL EXPENDITURES FOR THE 1974-75 YEAR IN THE ASIA AND PACIFIC AREA TOTALLED \$NZ19.4 MILLION OF WHICH \$NZ3 MILLION WENT TO WESTERN SAMOA, \$NZ1.7 MILLION WENT TO FIJI, \$NZ2.6 MILLION TO INDONESIA, \$NZ1.1 MILLION TO THAILAND. VIETNAM RECEIVED \$NZ762,000. REGIONAL AID FOR ASIA TOTALLED \$NZ3.8 MILLION AND FOR THE PACIFIC \$NZ958,000. GNZ IS TRYING TO MAINTAIN A NEUTRAL POSITION IN THE DISPENSING OF ITS ASSISTANCE IN ASIA. IT IS ATTEMPTING TO CONCENTRATE THE AID IN FIELDS THAT ARE LESS LIKELY TO BE CONTROVERSIAL (E.G. MEDICAL ASSISTANCE). A CONSIDERABLE AMOUNT OF GNZ ASSISTANCE IS SPENT PROCURING NZ PRODUCTS OR SERVICES FOR USE IN THE RECIPIENT COUNTRY.

2. THE EMBASSY HAS LITTLE NEW INFORMATION ON WHICH TO BASE COMMENTS ON ITEMS VI., VII., AND VIII. WE ANTICIPATE THAT THE GNZ WILL APPROACH THESE QUESTIONS AS FOLLOWS.

VI. U.S. MEAT IMPORT RESTRAINT SYSTEM

THE EMBASSY NOTES FROM GENEVA 5162 (REFTEL D) THAT THE NZ DELEGATION TO GATT HAS SUBMITTED NOTIFICATIONS AGAINST THE UNITED STATES FOR IMPOSING LIMITED OFFICIAL USE
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QUOTAS ON BEEF, VEAL AND MUTTON. THE GNZ WILL CERTAINLY WISH TO DISCUSS THE POSSIBILITY OF ABOLISHING OR RAISING THE VOLUNTARY QUOTAS CURRENTLY IN FORCE, PARTICULARLY THOSE ON BEEF. IN ITS EFFORTS TO TRADE ITS WAY OUT OF THE CURRENT ECONOMIC RECESSION, NEW ZEALAND VIEWS THE U.S. MARKET AS A TOP PRIORITY TARGET FOR INCREASING SALES.

VII. U.S. DUTIES ON WOOL YARN

DURING THE 1974 CONSULTATIONS, THE GNZ CALLED ATTENTION TO THE DIFFERENT RATES OF DUTY PAID FOR NEW ZEALAND'S COARSER WOOLS BASED ON THEIR INTENDED USE IN THE UNITED STATES, I.E. IN THE MANUFACTURE OF CARPETS AS OPPOSED TO OTHER ITEMS. NEW ZEALAND WILL AGAIN REQUEST THE HIGHER RATES OF DUTY BE ELIMINATED AS IT CONTENDS THE COARSE WOOL DOES NOT COMPETE WITH U.S. WOOL.

VIII. U.S., EEC, AND NEW ZEALAND DAIRY SITUATION

THE GNZ DELEGATION TO GATT HAS SUBMITTED A NOTIFICATION AGAINST THE UNITED STATES FOR IMPOSING QUOTAS ON DAIRY PRODUCTS (REFTEL D) NEW ZEALAND WILL REQUEST THAT QUOTAS BE ABOLISHED OR RAISED. FACING THE PARTIAL LOSS OF THE EEC EXPORT MARKET THE GNZ WILL BE PARTICULARLY ANXIOUS TO EXPAND OR AT LEAST RETAIN ITS SHARE OF THE U.S. MARKET. GNZ MAY ALSO RAISE THE SUBJECT OF U.S. PENETRATION OF EXPORT MARKETS FOR SPRAY SKIM MILK IN COUNTRIES CURRENTLY BUYING FROM NEW ZEALAND, I.E. JAPAN. SELDEN

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